

October 22, 2003

The Honorable Katie Stine, Co-Chair
The Honorable J.R. Gray, Co-Chair
Interim Joint Committee on Labor and Industry
Capitol Annex
Frankfort, Kentucky 40601

RE: Kentucky's Electronic Workplace for Employment Services (KEWES)

Dear Senator Stine and Representative Gray:

The General Assembly enacted SB 296 in unanimous votes cast during the 1998 Regular Session, allocating \$10 million annually for three years to the Cabinet for Workforce Development's Department of Employment Services (DES) for the purposes of enhancing the technology base, upgrading program integrity, and increasing the capacity to deliver service. A percentage of Unemployment Insurance (UI) payments, normally earmarked for paying claims, was earmarked for this technology initiative. DES chose to funnel most of these funds into a contract awarded to the firm BearingPoint, Inc. to develop and implement Kentucky's Electronic Workplace for Employment Services (KEWES). KEWES was envisioned to allow both employers and unemployment claimants to make all of their filings online or via telephone. More than six years and \$15 million later, KEWES is still not operational and suffers from serious problems, including

- inadequate planning,
- unexplained costs, and
- obsolete software and hardware.

During the course of our financial, information technology, and performance audits of the Workforce Development Cabinet this year, we learned that DES had retained an outside consultant, TRW, now known as Northrop Grumman, to perform an independent quality assessment of the KEWES project. We obtained a copy of this March 7, 2003 Quality Assessment Document and were alarmed by the number of significant findings involving projected costs, system technology concerns, poor project management, and questionable system reliability.

We asked DES to provide us (1) detailed information about the status of all recommendations, (2) how the agency was addressing the numerous problems TRW identified, and (3) related cost implications. DES was unwilling or unable to provide the information we requested. Unfortunately, what we received did nothing to alleviate our skepticism about this project. We are therefore communicating our concerns directly to you and the Committee.

Enclosed you will find the following four documents:

- (1) TRW's quality assessment,
- (2) DES's annual report presented to your Committee on September 4, 2002,
- (3) KEWES Project Work Plan, and
- (4) BearingPoint's response to the TRW quality assessment.

**TRW's independent
assessment of KEWES
identified many serious
concerns.**

The TRW assessment identified many problems associated with the effort to implement KEWES, which is now two years behind schedule. When we asked DES to detail actions it was taking in response to each finding, we were not provided any remediation plan or strategy. In fact, the sole action to date seems to have been placing TRW on retainer, at taxpayer cost of approximately \$198,000, to oversee the remainder of this project through November 15, 2003. We received no evidence that DES has responded appropriately to the assessment findings. A TRW comparison report was to be released by October 15 but we are told there has been a delay.

According to Task 1.5 in the KEWES Project Work Plan drafted in August 10, 1999, key performance indicators should have been developed for the project. This type of information is used for measuring and managing progress throughout the process. Had DES developed and monitored meaningful performance indicators, DES officials would have been alerted to problem areas and could have taken appropriate action.

*DES failed to provide
detailed information
related to KEWES project
costs.*

DES was nonresponsive to direct questions about cost information detail for the \$15 million in expenditures to date. It did not provide us original vendor invoices nor were we able to obtain projected costs. For example, we were unable to obtain projected costs to replace the now-obsolete computer hardware, which was originally purchased at the beginning of the project.

GOT has received over \$2.9 million to date and has 14 employees committed to the KEWES system. We were unable to obtain complete information for money paid to date to the Governor's Office for Technology (GOT) for project support. Nor could we obtain details related to GOT's projected future system maintenance costs of \$150,000 per month. Unfortunately the memorandum of agreement between DES and GOT does not allow GOT to assume any technical leadership roles.

DES has paid \$368,665 to support a KEWES component that has never been operational.

The Interactive Voice Response (IVR) component of KEWES was "sole sourced" to GovConnect shortly after the BearingPoint KEWES project manager quit and was employed by GovConnect. Since October 2002, GovConnect has been receiving monthly hosting fees of \$33,515 for a total of \$368,665 to date, even though the KEWES Initial Claims Acceptance Testing component is not operational. Furthermore, the agreement between GovConnect and DES provides for a per minute charge of ten cents, which is higher than what is paid by other states.

Was KEWES the best solution for Kentucky?

DES apparently lacked advance planning for use of the General Assembly's allocation in the most cost effective manner. Thorough project planning should have included an assessment of best practices in other states before preparing a request for proposal. Although DES officials informed us they had consulted other states after issuing an RFP prior to choosing a vendor for KEWES, they were unable to document or support these statements. According to Task 2.4 in the KEWES Project Work Plan drafted on August 10, 1999, a review and analysis of best practices in other states to identify "leading edge" approaches was required to be conducted. Again, DES could not supply documentation for this task. Without this documentation, it was impossible to determine whether KEWES was the best solution for Kentucky.

Eight states developed and implemented systems for less than \$1 million.

Systems in Idaho, Maryland, North Carolina, Minnesota, Oregon, Pennsylvania, Utah, and Washington, which perform the same basic functions, were developed and implemented for less than \$1 million. Additionally, these states were able to develop and implement adequate systems using existing state employees.

Some states chose to receive technical assistance from Information Technology Support Center (ITSC), a nonprofit consortium staffed by the state of Maryland, Lockheed Martin Corporation, the University of Maryland, and Mitretek Systems specializing in Unemployment Insurance computer solutions. DES informed us that it had consulted with ITSC. However, ITSC had no record that the Commonwealth of Kentucky made contact.

The ITSC website, www.itsc.state.md.us, contains extensive free information related to automating UI systems at minimal costs through careful planning and problem solving. It appears DES ignored a rich source of readily available information and technical assistance that could have helped it avoid many of the KEWES complications.

**Annual reports
presented to the
committee did not reflect
the actual status of
KEWES.**

DES asserts that KEWES will be fully operational in November 2003. Based on the past history of this project, we question this timeline.

It appears that in the September 2002 Annual Report to your committee, DES glossed over the status of this project, using language such as “KEWES is operational and making a difference” (see page 5 of the Annual Report), and “KEWES is now functioning with the final component to be implemented during the next few months” (see page 2 of the Annual Report). In reality, according to the DES Commissioner, merely six months after this information was communicated to you, DES contracted with TRW because of serious project concerns. TRW and this office found contradictory statements in the September 2002 Annual Report.

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We are concerned that your Committee may not have the benefit of full disclosure. We therefore respectfully forward this information for your attention. If you have any additional questions, please do not hesitate to contact me.

Very truly yours,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosures

C: Paul Patton, Governor
Ed Ford, Secretary, Executive Cabinet
Willie Lile, Secretary, Workforce Development Cabinet
James Thompson, Commissioner, Department for Employment Services (DES)
Robin Morley, Executive Director, Governor's Office for Technology
Gordon Duke, Secretary, Finance and Administration Cabinet
David Williams, Senate President
Jody Richards, House Speaker
Members of the Interim Joint Committee on Labor and Industry
James A. Nelson, State Librarian